

Kandi Technologies Corp  
Form 10-Q  
November 15, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2010

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33997

Kandi Technologies, Corp.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

90-0363723  
(I.R.S. Employer Identification  
No.)

Jinhua City Industrial Zone  
Jinhua, Zhejiang Province  
People's Republic of China  
Post Code 321016  
(Address of principal executive offices)

\_\_\_\_\_  
(86 - 0579) 82239856  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of November 10, 2010 the registrant had issued and outstanding 24,305,831 shares of common stock, par value \$.001 per share.

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## PART I— FINANCIAL INFORMATION

## Item 1. Financial Statements. (Unaudited)

KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

## ASSETS

|                                                                                                                                                  | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009<br>(Audited) |
|--------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------|
| <b>CURRENT ASSETS</b>                                                                                                                            |                                      |                                   |
| Cash and cash equivalents                                                                                                                        | \$ 3,411,842                         | \$ 218,207                        |
| Restricted cash                                                                                                                                  | 9,857,822                            | 5,704,984                         |
| Accounts receivable, net of allowance for doubtful accounts of \$0 as of September 30, 2010 and December 31, 2009                                | 14,156,701                           | 14,879,968                        |
| Inventories, net of reserve for slow moving inventories of \$155,441 and \$152,278 as of September, 30, 2010 and December 31, 2009, respectively | 10,993,840                           | 5,382,760                         |
| Notes receivable                                                                                                                                 | 13,864,424                           | 2,267,599                         |
| Other receivables                                                                                                                                | 911,130                              | 321,336                           |
| Prepayments and prepaid expenses                                                                                                                 | 30,708                               | 30,083                            |
| Due from employees                                                                                                                               | 42,452                               | 28,228                            |
| Advances to suppliers                                                                                                                            | 350,525                              | 1,164,672                         |
| <b>Total Current Assets</b>                                                                                                                      | <b>53,619,444</b>                    | <b>29,997,837</b>                 |
| <b>LONG-TERM ASSETS</b>                                                                                                                          |                                      |                                   |
| Plant and equipment, net                                                                                                                         | 21,669,805                           | 23,146,833                        |
| Land use rights, net                                                                                                                             | 10,755,939                           | 10,719,528                        |
| Deferred tax asset                                                                                                                               | 219,351                              | 207,747                           |
| <b>Total Long-Term Assets</b>                                                                                                                    | <b>32,645,095</b>                    | <b>34,074,108</b>                 |
| <b>TOTAL ASSETS</b>                                                                                                                              | <b>\$ 86,264,539</b>                 | <b>\$ 64,071,945</b>              |

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

|                                                                                                                                                                         | September, 30,<br>2010<br>(Unaudited) | December 31,<br>2009<br>(Audited) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------------------|
| <b>CURRENT LIABILITIES</b>                                                                                                                                              |                                       |                                   |
| Accounts payable                                                                                                                                                        | \$ 10,159,908                         | \$ 4,738,543                      |
| Other payables and accrued expenses                                                                                                                                     | 1,414,921                             | 1,871,020                         |
| Short-term bank loans                                                                                                                                                   | 23,887,371                            | 26,326,566                        |
| Customer deposits                                                                                                                                                       | 4,257                                 | 39,371                            |
| Notes payable                                                                                                                                                           | 14,105,767                            | 7,931,540                         |
| Income tax payable                                                                                                                                                      | 95,439                                | 201,564                           |
| Due to employees                                                                                                                                                        | 10,748                                | 88,306                            |
| Due to related party                                                                                                                                                    | 841,251                               | 841,251                           |
| Deferred tax liability                                                                                                                                                  | 54,808                                | 62,544                            |
| <b>Total Current Liabilities</b>                                                                                                                                        | <b>50,574,470</b>                     | <b>42,100,705</b>                 |
| <b>LONG TERM LIABILITIES</b>                                                                                                                                            |                                       |                                   |
| Note payable, net of discount of \$3,302,508 and \$0 as of September, 30, 2010 and December 31, 2009, respectively                                                      | 807,278                               | -                                 |
| Warrant liabilities                                                                                                                                                     | 5,737,418                             | -                                 |
| <b>Total Long-Term Liabilities</b>                                                                                                                                      | <b>6,544,696</b>                      | <b>-</b>                          |
| <b>TOTAL LIABILITIES</b>                                                                                                                                                | <b>57,119,166</b>                     | <b>42,100,705</b>                 |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                                                                                                                    |                                       |                                   |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                                                             |                                       |                                   |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; 22,960,266 and 19,961,000 shares outstanding at September, 30, 2010 and December 31, 2009, respectively | 22,960                                | 19,961                            |
| Additional paid-in capital                                                                                                                                              | 16,120,761                            | 8,967,012                         |
| Retained earnings (the restricted portion is \$890,912 at September, 30, 2010 and December 31, 2009)                                                                    | 10,337,673                            | 11,046,999                        |
| Accumulated other comprehensive income                                                                                                                                  | 2,663,979                             | 1,937,268                         |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                                                                                                                                       | <b>29,145,373</b>                     | <b>21,971,240</b>                 |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                       | <b>\$ 86,264,539</b>                  | <b>\$ 64,071,945</b>              |

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND  
COMPREHENSIVE (LOSS) INCOME  
(UNAUDITED)

|                                                      | Three Months Ended |               | Nine Months Ended |               |
|------------------------------------------------------|--------------------|---------------|-------------------|---------------|
|                                                      | September 30,      | September 30, | September 30,     | September 30, |
|                                                      | 2010               | 2009          | 2010              | 2009          |
| REVENUES, NET                                        | \$ 10,478,224      | \$ 9,626,593  | \$ 28,637,863     | \$ 19,114,049 |
| COST OF GOODS SOLD                                   | (8,140,771)        | (7,266,052)   | (22,098,905)      | (14,329,404)  |
| GROSS PROFIT                                         | 2,337,453          | 2,360,541     | 6,538,958         | 4,784,645     |
| Research and development                             | 459,935            | 660,108       | 1,203,270         | 1,767,081     |
| Selling and distribution expenses                    | 58,121             | 79,310        | 1,000,187         | 263,304       |
| General and administrative expenses                  | 516,929            | 510,212       | 2,315,088         | 1,966,422     |
| INCOME (LOSS) FROM OPERATIONS                        | 1,302,468          | 1,110,911     | 2,020,413         | 787,838       |
| Interest income (expense), net                       | (572,032)          | (442,315)     | (2,015,516)       | (860,872)     |
| Change of fair value of financial instruments        | (2,578,693)        | -             | (802,884)         | -             |
| Government grants                                    | 191,934            | 3,312         | 266,911           | 127,317       |
| Other income, net                                    | 33,249             | 9,800         | 91,088            | 311,984       |
| (LOSS) INCOME FROM OPERATIONS BEFORE<br>INCOME TAXES | (1,623,074)        | 681,708       | (439,988)         | 366,267       |
| INCOME TAX (EXPENSE) BENEFIT                         | (94,282)           | (105,558)     | (269,338)         | (146,642)     |
| (LOSS) INCOME FROM CONTINUING<br>OPERATIONS          | (1,717,356)        | 576,150       | (709,326)         | 219,625       |
| NET INCOME (LOSS)                                    | (1,717,356)        | 576,150       | (709,326)         | 219,625       |

See accompanying notes to condensed consolidated financial statements

|                                             | Three Months Ended |                   | Nine Months Ended |                   |
|---------------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                             | September 30,      | September 30,     | September 30,     | September 30,     |
|                                             | 2010               | 2009              | 2010              | 2009              |
| <b>OTHER COMPREHENSIVE INCOME</b>           |                    |                   |                   |                   |
| Foreign currency translation                | 595,771            | (2,070)           | 726,711           | 26,349            |
| <b>COMPREHENSIVE (LOSS) INCOME</b>          | <b>(1,121,585)</b> | <b>574,080</b>    | <b>17,385</b>     | <b>245,974</b>    |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>  |                    |                   |                   |                   |
| <b>BASIC</b>                                | <b>22,570,140</b>  | <b>19,961,000</b> | <b>21,139,827</b> | <b>19,961,000</b> |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>  |                    |                   |                   |                   |
| <b>DILUTED</b>                              | <b>22,570,140</b>  | <b>21,155,595</b> | <b>21,139,827</b> | <b>20,856,082</b> |
| <b>NET INCOME (LOSS) PER SHARE FROM</b>     |                    |                   |                   |                   |
| <b>CONTINUING OPERATIONS, BASIC</b>         | <b>\$ (0.08)</b>   | <b>\$ 0.03</b>    | <b>\$ (0.03)</b>  | <b>\$ 0.01</b>    |
| <b>NET INCOME (LOSS) PER SHARE FROM</b>     |                    |                   |                   |                   |
| <b>CONTINUING OPERATIONS, DILUTED</b>       | <b>\$ (0.08)</b>   | <b>\$ 0.03</b>    | <b>\$ (0.03)</b>  | <b>\$ 0.01</b>    |
| <b>NET INCOME (LOSS) PER SHARE, BASIC</b>   | <b>\$ (0.08)</b>   | <b>\$ 0.03</b>    | <b>\$ (0.03)</b>  | <b>\$ 0.01</b>    |
| <b>NET INCOME (LOSS) PER SHARE, DILUTED</b> | <b>\$ (0.08)</b>   | <b>\$ 0.03</b>    | <b>\$ (0.03)</b>  | <b>\$ 0.01</b>    |

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

|                                                                                                    | Nine Months Ended September, 30 |                |
|----------------------------------------------------------------------------------------------------|---------------------------------|----------------|
|                                                                                                    | 2010                            | 2009           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                       |                                 |                |
| Net (loss) income                                                                                  | \$ (709,326)                    | \$ 219,625     |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: |                                 |                |
| Depreciation and amortization                                                                      | 3,105,355                       | 2,529,981      |
| Deferred taxes                                                                                     | (10,549)                        | 41,085         |
| Option and warrant expense                                                                         | 2,198,961                       | 840,468        |
| Change of financial instrument's fair value                                                        | 2,434,909                       | -              |
| <b>Changes in operating assets and liabilities:</b>                                                |                                 |                |
| (Increase) Decrease In:                                                                            |                                 |                |
| Accounts receivable                                                                                | 1,014,365                       | 652,827        |
| Inventories                                                                                        | (5,403,855)                     | (11,232,447)   |
| Other receivables                                                                                  | (573,000)                       | 172,147        |
| Due from employees                                                                                 | (91,416)                        | 50,393         |
| Prepayments and prepaid expenses                                                                   | 823,785                         | (596,614)      |
| <b>Increase (Decrease) In:</b>                                                                     |                                 |                |
| Accounts payable                                                                                   | 5,230,579                       | 1,225,909      |
| Other payables and accrued liabilities                                                             | (480,855)                       | 1,404,305      |
| Customer deposits                                                                                  | (35,308)                        | (650,636)      |
| Income tax payable                                                                                 | (108,396)                       | 105,558        |
| Net cash provided by (used in) operating activities                                                | \$ 7,395,249                    | \$ (5,237,399) |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                       |                                 |                |
| Purchases of plant and equipment                                                                   | (750,553)                       | (3,059,687)    |
| Purchase of construction in progress                                                               | -                               | (553,545)      |
| Issuance of notes receivable                                                                       | (13,623,804)                    | (10,011,535)   |
| Repayments of notes receivable                                                                     | 2,274,519                       | 19,330,289     |
| Net cash (used in) provided by investing activities                                                | \$ (12,099,838)                 | \$ 5,705,522   |

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

|                                                             | Nine Months Ended September, 30 |                   |
|-------------------------------------------------------------|---------------------------------|-------------------|
|                                                             | 2010                            | 2009              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                |                                 |                   |
| Restricted cash                                             | \$ (3,964,344)                  | \$ 4,680,286      |
| Proceeds from short-term bank loans                         | 23,619,506                      | 24,216,260        |
| Repayments of short-term bank loans                         | (26,553,606)                    | (22,900,953)      |
| Proceeds from notes payable                                 | 23,860,959                      | 14,468,375        |
| Repayments of notes payable                                 | (7,955,742)                     | (20,410,634)      |
| Option exercise and Note conversion                         | (932,425)                       | -                 |
| Repayments of advances to related parties                   | -                               | 217,484           |
| Net cash provided by financing activities                   | 8,074,348                       | 270,818           |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>3,369,759</b>                | <b>738,942</b>    |
| Effect of exchange rate changes on cash                     | (176,124)                       | 1,163             |
| Cash and cash equivalents at beginning of period            | 218,207                         | 141,380           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>           | <b>\$ 3,411,842</b>             | <b>\$ 881,485</b> |
| <b>SUPPLEMENTARY CASH FLOW INFORMATION</b>                  |                                 |                   |
| Income taxes paid                                           | \$ 388,351                      | \$ -              |
| Interest paid                                               | \$ 1,331,792                    | \$ 1,354,460      |

**SUPPLEMENTAL NON-CASH DISCLOSURE:**

During the nine months ended September, 30, 2010 and 2009, \$0 and \$1,301,166 were transferred from construction in progress to plant and equipment, respectively.

See accompanying notes to condensed consolidated financial statements

KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 (UNAUDITED)

NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES

Stone Mountain Resources, Inc. (“Stone Mountain”) was incorporated under the laws of the State of Delaware on March 31, 2004. On August 13, 2007, Stone Mountain Resources, Inc. changed its name to Kandi Technologies, Corp. (“Kandi” or the “Company”).

On June 29, 2007, pursuant to the share exchange agreement between Stone Mountain Resources, Inc., Continental Development Limited, (“Continental”) and Excelvantage (Continental’s sole shareholder), Stone Mountain issued 12,000,000 shares of its common stock to Excelvantage, in exchange for 100% of the common stock of Continental. As a result of the share exchange, Continental became a wholly-owned subsidiary of Stone Mountain. Kandi Technologies, Corp. conducts its operations through its wholly owned subsidiary, Zhejiang Kandi Vehicles Co. Ltd., a People’s Republic of China (“PRC”) company.

On June 24, 2008 the Company closed its acquisition of 100% of the shares of Kandi Special Vehicles Co., Ltd (“KSV”), after which KSV became a wholly-owned subsidiary of the Company. The acquisition was accounted for as a purchase in accordance with Statements of Financial Accounting Standards (“SFAS”) No. 141 “Business Combinations.” The consolidated statements of income include the results of operations of KSV at the date of acquisition. On March 10, 2009, KSV changed its name to Kandi New Energy Vehicles Co., Ltd, (“KNE”). On June 11, 2009, KNE changed its name back to KSV.

On May 9, 2008, the Company sold Zhejiang Yongkang Top Import & Export Co., Ltd. (“Dingji”), a subsidiary of the Company, to certain individuals.

The primary operations of the Company are the design, development, manufacturing, and commercializing of all-terrain vehicles, go-karts, and specialized automobile related products for the PRC and global export markets. Sales are made to dealers in Asia, North America, Europe and Australia.

In recent years, an increased focus of the Company has been on the development of products for its domestic market in China, particularly battery powered all electric super-mini automobiles (EVs). In November, 2009, the Company sold 30 specially designed low speed EVs to the Postal Service in Jinhua, and in July, 2010, the Company announced that it received an order from the Postal Service in Hangzhou, Zhejiang Province, for 60 all electric vehicles.

On January 4, 2010, the Company announced that it formed an alliance with major Chinese energy, IT and battery companies to help launch a new business model for the mass commercialization of EVs to be expanded on a city by city basis, addressing key concerns relating to EVs, including high purchase costs, limited driving ranges and convenience and safety matters with respect to the charging, maintenance and disposal of batteries. Under this new business model, consumer costs will be reduced as a result of government cooperation and subsidies, and driving ranges will be extended through the construction of “battery farms” which will allocate power to a network of “express change” battery stations where batteries may be rented and exchanged utilizing Kandi technology. Central to the new business strategy, batteries will be made available on a rental basis separate from the sale of each vehicle. An initial goal of the Alliance is the establishment of a revolutionary comprehensive model EV city in Jinhua to be followed by other model cities in Zhejiang Province with the assistance and participation of the local and regional governments. The core members of the alliance with the Company are China Potevio/CNOOC New Energy and Power Ltd. (a joint venture between China National Offshore Oil Corporation and China Potevio Co.) and Tianneng

Power International, Ltd.

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KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 (UNAUDITED)

In April, 2010, the Company announced that it anticipated that local and regional government funded subsidies for up to 50% of the purchase price of EVs would be made available to the first 3,000 purchasers of the Company's EVs in the Jinhua EV model city.

Most significantly, on April 30, 2010, China's Ministry of Industry and Information and Technology qualified the Company's low speed vehicle (KD5020X) for China's energy conserving and new energy projects. The vehicle was placed on its list of vehicles in its 10th catalogue of recommended car types which meet requirements for sales to the public. On June 1, 2010, the Chinese Ministry of Finance (MOF) announced planned trial subsidies for China's EV and hybrid car manufacturers of up to RMB 60,000 and RMB 50,000, respectively, as part of an effort to stimulate purchases of these vehicles to help reduce emissions and gasoline consumption. Additionally, the announcement indicated there will be government investment and policy support for EV infrastructure, such as battery charging stations. The announcement noted that the trial will be initiated in five Chinese cities: Shanghai, Hangzhou, Changchun, Shenzhen and Hefei. On June 21, 2010, the Company announced that another EV product, Model KD 5010XXYEV, was also approved for sale in China, and this will likely be the primary model available to the EV buyers in China.

On July 16, 2010, the Company announced that construction of the first battery charging station was underway in Jinhua. The State Grid Corporation of China, China's largest electric power and transmission company, is funding the project and is responsible for construction, which is expected to be completed before the end of 2010.

Most recently, (also see Note 20 - "Subsequent Events"), the Company announced a joint venture with a subsidiary of China's largest power transmission company, State Grid Power Corporation, and China's leading lead motive battery maker, Tianneng Power International, Inc., to establish the first China EV battery replacement services Company. Kandi's 30% share of this Company is expected to provide an additional new revenue stream for Kandi's EV and recreational vehicles product lines. Kandi's initial EV sales under its new business model will start in Jinhua and is anticipated to launch in the final quarter of this year.

#### NOTE 2 – LIQUIDITY

The Company's working capital surplus is \$3,044,974 as of September 30, 2010.

As of September 30, 2010, the Company had credit lines from commercial banks for \$37,622,609, of which \$23,887,371 was used at September 30, 2010.

The Company believes that its cash flows generated internally may not be sufficient to support the growth of the operations and repay short term bank loans for the next twelve months if needed. Therefore, from time to time, the Company may require extra funding through short term borrowing from PRC banks or other financing activities if needed in the near future. Nevertheless, the Company believes that financing will be available on normal trade terms if needed.

KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 (UNAUDITED)

NOTE 3 - BASIS OF PRESENTATION

The Company's unaudited condensed consolidated financial statements for the nine months ended September 30, 2010 and 2009 have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the requirements for reporting on Rule 8-03 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year. The condensed consolidated balance sheet information as of December 31, 2009 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with that report.

NOTE 4 – PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Kandi Technologies Corp., and the following subsidiaries:

- (i) Continental Development Ltd. ("Continental"), a wholly-owned subsidiary of the Company;
- (ii) Zhejiang Kandi Vehicles Co. Ltd. ("Kandi"), a wholly-owned subsidiary of Continental; and
- (iii) Kandi Special Vehicles Co., Ltd. ("KSV", formerly known as Kandi New Energy Vehicles Co. Ltd. "KNE"), a wholly-owned subsidiary of the Company.

Inter-company accounts and transactions have been eliminated in consolidation.

NOTE 5 – USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Management makes these estimates using the best information available at the time the estimates are made; however actual results when ultimately realized could differ from those estimates.

KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 (UNAUDITED)

NOTE 6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Economic and Political Risks

The Company's operations are conducted in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC economy.

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

(b) Fair Value of Financial Instruments

ASC 820 "Fair Value Measurement and Disclosures" codified SFAS 157 that establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

These tiers include:

- Level 1—defined as observable inputs such as quoted prices in active markets;
- Level 2—defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3—defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The assets and liabilities measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of September 30, 2010 are as follows:

|                           | Fair Value Measurements at Reporting Date Using Quoted Prices in |                                                        |                                                        |                                                    |
|---------------------------|------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------|
|                           | Carrying value<br>as of September<br>30, 2010                    | Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Cash and cash equivalents | \$ 3,411,842                                                     | \$ 3,411,842                                           | -                                                      | -                                                  |
| Restricted cash           | \$ 9,857,822                                                     | \$ 9,857,822                                           | -                                                      | -                                                  |
| Conversion features       | \$ 2,553,237                                                     | -                                                      | \$ 2,553,237                                           | -                                                  |
| Warrants                  | \$ 3,184,181                                                     | -                                                      | \$ 3,184,181                                           | -                                                  |



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NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents consist primarily of high rated money market funds at a variety of well-known institutions with original maturities of three months or less. Restricted cash represents time deposits on account to secure short-term bank loans and notes payable. The original cost of these assets approximates fair value due to their short term maturity.

Warrants and conversion features embedded in the Convertible Notes, which are accounted as liabilities, are treated as derivative instruments, which will be measured at each reporting date for their fair value using Level 2 inputs. Also see Note 6 section (r) and (s).

The Company's non-financial assets are measured on a recurring basis. These non-financial assets are measured for impairment annually on the Company's measurement date at the reporting unit level using Level 3 inputs. For most assets, ASC 820 requires that the impact of changes resulting from its application be applied prospectively in the year in which the statement is initially applied.

The Company's non-financial assets measured on a non-recurring basis include the Company's property, plant and equipment and finite-use intangible assets which are measured for recoverability when indicators for impairment are present. ASC 820 requires companies to disclose assets and liabilities measured on a non-recurring basis in the period in which the remeasurement at fair value is performed. The Company has reviewed its long-lived assets as of September 30, 2010 and determined that there are no significant assets to be tested for recoverability under ASC 360 (formerly SFAS 144) and as such, no fair value measurements related to non-financial assets have been made during the nine months ended September 30, 2010.

(c) Cash and Cash Equivalents

The Company considers highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Restricted cash on September 30, 2010 and December 31, 2009 represent time deposits on account to secure short-term bank loans and notes payable. Also see Notes 14 and 15.

(d) Inventories

Inventories are stated at the lower of cost or net realizable value (market value). The cost of raw materials is determined on the basis of weighted average. The cost of finished goods is determined on the weighted average basis and comprises direct materials, direct labor and an appropriate proportion of overhead.

Net realizable value is based on estimated selling prices less any further costs expected to be incurred for completion and selling expense.

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NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Accounts Receivable

Accounts receivable are recognized and carried at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. At September 30, 2010 and December 31, 2009, the Company has an allowance for doubtful accounts of \$0.

(f) Prepayments

Prepayments represent cash paid in advance to suppliers for raw materials purchases.

(g) Plant and Equipment

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method. Leasehold improvements are amortized over the life of the asset or the term of the lease, whichever is shorter. Estimated useful lives are as follows:

|                         |          |
|-------------------------|----------|
| Buildings               | 30 years |
| Machinery and equipment | 10 years |
| Office equipment        | 5 years  |
| Motor vehicles          | 5 years  |
| Moulds                  | 5 years  |

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income. The cost of maintenance and repairs is charged to expense as incurred, whereas significant renewals and betterments are capitalized.

(h) Construction in Progress

Construction in progress represents direct costs of construction or the acquisition cost of buildings or machinery and design fees. Capitalization of these costs ceases and the construction in progress is transferred to plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided until the assets are completed and ready for their intended use.

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NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Land Use Rights

According to the laws of China, land in the PRC is owned by the government and cannot be sold to an individual or a company. However, the government grants the user a “land use right” to use the land. The land use rights granted to the Company are being amortized using the straight-line method over the lease term of fifty years.

(j) Accounting for the Impairment of Long-Lived Assets

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets subject to amortization, when events and circumstances warrant such a review, pursuant to the guidelines established in ASC No. 350. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

During the reporting period, there was no impairment loss.

(k) Revenue Recognition

Revenues represent the invoiced value of goods sold, recognized upon the shipment of goods to customers. Revenues are recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectability is reasonably assured.

(l) Research and Development

Expenditures relating to the development of new products and processes, including significant improvement to existing products are expensed as incurred. Research and development expenses were \$1,203,270 and \$1,767,081 for the nine months ended September 30, 2010 and 2009, respectively.

(m) Government Grant

Grants received from the PRC Government for assisting in the Company's technical research and development efforts are netted against the relevant costs incurred when the proceeds are received or collectible.

For the nine months ended September 30, 2010 and 2009, \$266,911 and \$127,317 was received from the PRC government for the Company's contribution to the local economy.



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NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income Taxes

The Company accounts for income tax using an asset and liability approach and allows for recognition of deferred tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future realization is uncertain.

(o) Foreign Currency Translation

The accompanying consolidated financial statements are presented in United States dollars. The functional currency of the Company is the Renminbi (RMB). Capital accounts of the consolidated financial statements are translated into United States dollars from RMB at their historical exchange rates when the capital transactions occurred.

|                                           | September 30,<br>2010 | December 31,<br>2009 | September 30,<br>2009 |
|-------------------------------------------|-----------------------|----------------------|-----------------------|
| Period end RMB : USD exchange rate        | 6.6981                | 6.8372               | 6.8376                |
| Average quarterly RMB : USD exchange rate | 6.8164                | 6.8409               | 6.8425                |

(p) Comprehensive Income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. Comprehensive income includes net income and the foreign currency translation changes.

(q) Stock Option Cost

The Company's stock option cost is recorded in accordance with ASC 718 and ASC 505.

The fair value of stock options is estimated using the Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration date of the option. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock option expense recognized is based on awards expected to vest, and there were no estimated forfeitures. ASC standards requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The stock option related expense for the nine months ended September 30, 2010 is \$1,295,312. Also see Note 17.



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NOTE 6 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Warrant Cost

The Company's warrant costs are recorded in liabilities and equities, respectively, in accordance with ASC 480, ASC 505 and ASC 815.

The fair value of warrants is estimated using the Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's stock adjusted by average volatility of companies in automotive industry. The expected life assumption is primarily based on the expiration date of the warrant. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Company determined that the equity based warrants are not considered derivatives under ASC 815, while the warrants, which are freestanding derivatives and are classified as liabilities on the balance sheet, will be measured at fair value on each reporting date, with decreases in fair value recognized in earnings and increases in fair values recognized in expenses as interest expense.

(s) Fair Value of Conversion features

In accordance with ASC 815, the conversion feature of the Convertible Notes is separated from the debt instrument and accounted for separately as a derivative instrument. On the date the Convertible Notes are issued, the conversion feature was recorded as a liability at its fair value, and future decreases in fair value recognized in earnings while increases in fair values recognized in expenses as interest expense.

The Company used the Black-Scholes-Merton option-pricing model to obtain the fair value of the conversion feature. The Company's expected volatility assumption is based on the historical volatility of the Company's stock adjusted by average volatility of companies in automotive industry. The expected life assumption is primarily based on the expiration date of the conversion features. The risk-free interest rate for the expected term of the conversion features is based on the U.S. Treasury yield curve in effect at the time of grant.

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NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS

Recently Implemented Standards

ASC 105, Generally Accepted Accounting Principles (“ASC 105”) (formerly Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162) reorganized by topic existing accounting and reporting guidance issued by the Financial Accounting Standards Board (“FASB”) into a single source of authoritative generally accepted accounting principles (“GAAP”) to be applied by nongovernmental entities. All guidance contained in the Accounting Standards Codification (“ASC”) carries an equal level of authority. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Accordingly, all other accounting literature will be deemed “non-authoritative.” ASC 105 is effective on a prospective basis for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has implemented the guidance included in ASC 105 as of July 1, 2009. The implementation of this guidance changed the Company’s references to GAAP authoritative guidance but did not impact the Company’s financial position or results of operations.

ASC 855, Subsequent Events (“ASC 855”) (formerly Statement of Financial Accounting Standards No. 165, Subsequent Events) includes guidance that was issued by the FASB in May 2009, and is consistent with current auditing standards in defining a subsequent event. Additionally, the guidance provides for disclosure regarding the existence and timing of a company’s evaluation of its subsequent events. ASC 855 defines two types of subsequent events, “recognized” and “non-recognized.” Recognized subsequent events provide additional evidence about conditions that existed at the date of the balance sheet and are required to be reflected in the financial statements. Non-recognized subsequent events provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date and, therefore, are not required to be reflected in the financial statements. However, certain non-recognized subsequent events may require disclosure to prevent the financial statements from being misleading. This guidance was effective prospectively for interim or annual financial periods ending after June 15, 2009. The Company implemented the guidance included in ASC 855 as of July 1, 2009. The effect of implementing this guidance was not material to the Company’s financial position or results of operations.

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NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Recent Accounting Pronouncements

In August 2009, the FASB issued ASC Update No. 2009-05, Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value (“ASC Update No. 2009-05”). This update amends ASC 820, Fair Value Measurements and Disclosures and provides further guidance on measuring the fair value of a liability. The guidance establishes the types of valuation techniques to be used to value a liability when a quoted market price in an active market for the identical liability is not available, such as the use of an identical or similar liability when traded as an asset. The guidance also further clarifies that a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are both Level 1 fair value measurements. If adjustments are required to be applied to the quoted price, it results in a Level 2 or 3 fair value measurement. The guidance provided in the update is effective for the first reporting period (including interim periods) beginning after issuance. The Company has implemented ASC Update No. 2009-05 as of September 30, 2010.

In September 2009, the FASB issued ASC Update No. 2009-12, Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) (“ASC Update No. 2009-12”). This update sets forth guidance on using the net asset value per share provided by an investee to estimate the fair value of an alternative investment. Specifically, the update permits a reporting entity to measure the fair value of this type of investment on the basis of the net asset value per share of the investment (or its equivalent) if all or substantially all of the underlying investments used in the calculation of the net asset value is consistent with ASC 820. The update also requires additional disclosures by each major category of investment, including, but not limited to, fair value of underlying investments in the major category, significant investment strategies, redemption restrictions, and unfunded commitments related to investments in the major category. The amendments in this update are effective for interim and annual periods ending after December 15, 2009 with early application permitted. The Company does not expect that the implementation of ASC Update No. 2009-12 will have a material effect on its financial position or results of operations.

ASC 810-10-30 & 10-65 codified Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) (“Statement No. 167”). Statement No. 167 amends FASB Interpretation No. 46R, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (“FIN 46R”) to require an analysis to determine whether a company has a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has (a) the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The statement requires an ongoing assessment of whether a company is the primary beneficiary of a variable interest entity when the holders of the entity, as a group, lose power, through voting or similar rights, to direct the actions that most significantly affect the entity’s economic performance. This statement also enhances disclosures about a company’s involvement in variable interest entities. The Company does not expect the adoption of ASC 810-10-30 & 10-65 to have a material impact on its financial position or results of operations.



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## NOTE 7 – NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

ASC 860-10-65 codified Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (“Statement No. 166”). Statement No. 166 revises FASB Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Extinguishment of Liabilities a replacement of FASB Statement 125 (“Statement No. 140”) and requires additional disclosures about transfers of financial assets, including securitization transactions, and any continuing exposure to the risks related to transferred financial assets. It also eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and enhances disclosure requirements. The Company does not expect the adoption of ASC860-10-65 will have a material impact on its financial position or results of operations.

## NOTE 8 – CONCENTRATIONS

## (a) Customers

The Company’s major customers for the period ended September 30, 2010 accounted for the following percentages of total sales and accounts receivable as follows:

| Major Customers | Sales                                       |                                             | Accounts Receivable    |                      |
|-----------------|---------------------------------------------|---------------------------------------------|------------------------|----------------------|
|                 | Nine Months Ended<br>September, 30,<br>2010 | Nine Months Ended<br>September, 30,<br>2009 | September, 30,<br>2010 | December 31,<br>2009 |
| Company A       | 42%                                         | 89%                                         | 9%                     | 92%                  |
| Company B       | 38%                                         | -                                           | 61%                    | -                    |
| Company C       | 13%                                         | 14%                                         | 23%                    | 7%                   |
| Company D       | 2%                                          | -                                           | 1%                     | -                    |
| Company E       | 2%                                          | -                                           | 5%                     | -                    |

## (b) Suppliers

The Company’s major suppliers for the nine months ended September 30, 2010 accounted for the following percentage of total purchases and accounts payable as follows:

| Major Suppliers | Purchases                                   |                                             | Accounts Payable       |                      |
|-----------------|---------------------------------------------|---------------------------------------------|------------------------|----------------------|
|                 | Nine Months Ended<br>September, 30,<br>2010 | Nine Months Ended<br>September, 30,<br>2009 | September, 30,<br>2010 | December 31,<br>2009 |
| Company F       | 82%                                         | 77%                                         | 54%                    | -                    |
| Company G       | 2%                                          | 1%                                          | 2%                     | 5%                   |
| Company H       | 1%                                          | 1%                                          | -                      | -                    |
| Company I       | 1%                                          | 1%                                          | 2%                     | 4%                   |
| Company J       | 1%                                          | 1%                                          | 1%                     | 3%                   |



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## NOTE 9 –INCOME (LOSS) PER SHARE

The Company calculates earnings per share in accordance with ASC 260, Earnings Per Share, which requires a dual presentation of basic and diluted earnings per share. Basic earnings per share are computed using the weighted average number of shares outstanding during the fiscal year. Diluted earnings per share represents basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options, warrants and convertible note (using the if-converted method). Because for this reporting period, the Company recorded a net loss, outstanding stock options, warrants and convertible note are anti-dilutive.

The following table sets forth the computation of basic and diluted net income per common share:

| Nine months Ended September 30,                       | 2010         | 2009       |
|-------------------------------------------------------|--------------|------------|
| Net (loss) income                                     | \$ (709,326) | \$ 219,625 |
| Weighted – average shares of common stock outstanding |              |            |
| Basic                                                 | 21,139,827   | 19,961,000 |
| Dilutive shares                                       | -            | 895,082    |
| Diluted                                               | 21,139,827   | 20,856,082 |
| Basic (loss) earning per share                        | \$ (0.03)    | \$ 0.01    |
| Diluted (loss) earning per share                      | \$ (0.03)    | \$ 0.01    |

Also see Note 17.

## NOTE 10 - INVENTORIES

Inventories are summarized as follows:

|                                           | September 30, 2010<br>(Unaudited) | December 31, 2009 |
|-------------------------------------------|-----------------------------------|-------------------|
| Raw material                              | \$ 1,250,589                      | \$ 956,378        |
| Work-in-progress                          | 9,251,710                         | 3,785,506         |
| Finished goods                            | 646,982                           | 793,154           |
|                                           | 11,149,281                        | 5,535,038         |
| Less: reserve for slow moving inventories | (155,441)                         | (152,278)         |
| Inventories, net                          | \$ 10,993,840                     | \$ 5,382,760      |

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## NOTE 11 - NOTES RECEIVABLE

Notes receivable are summarized as follows:

|                                                    | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|----------------------------------------------------|--------------------------------------|----------------------|
| Notes receivable from unrelated companies:         |                                      |                      |
| Due February 24, 2010, interest at 5.0% per annum  | \$ -                                 | \$ 1,146,574         |
| Due February 24, 2010, interest at 5.0% per annum  | -                                    | 389,731              |
| Due April 29, 2010, interest at 5.31% per annum    | -                                    | 731,294              |
| Due December 30, 2010, interest at 8.0% per annum  | 8,211,284                            | -                    |
| Due March 3, 2011, interest at 6.0% per annum      | 1,189,501                            | -                    |
| Due March 5, 2011, interest at 6.0% per annum      | 417,716                              | -                    |
| Due April 29, 2011, interest at 5.31% per annum    | 746,480                              | -                    |
| Due September 30, 2011, interest at 8.0% per annum | 3,299,443                            | -                    |
| Notes receivable from unrelated companies          | 13,864,424                           | 2,267,599            |
| Bank acceptance notes:                             |                                      |                      |
| Bank acceptance notes                              | -                                    | -                    |
| Notes receivable                                   | \$ 13,864,424                        | \$ 2,267,599         |

Notes receivable are unsecured.

## NOTE 12 – LAND USE RIGHTS

Land use rights consist of the following:

|                                | September 30,<br>2010<br>(Unaudited) | December 31, 2009 |
|--------------------------------|--------------------------------------|-------------------|
| Cost of land use rights        | \$ 11,427,222                        | \$ 11,168,397     |
| Less: Accumulated amortization | (671,283)                            | (448,869)         |
| Land use rights, net           | \$ 10,755,939                        | \$ 10,719,528     |

As of September 30, 2010 and December 31, 2009, the net book value of land use rights pledged as collateral for Company's bank loans was \$1,312,806 and \$2,456,811, respectively. Also see Note 14.

As of September 30, 2010 and December 31, 2009, the net book value of land use rights pledged as collateral for bank loans borrowed by Zhejiang Mengdeli Electronic Co., Ltd. ("ZMEC"), an unrelated party of the Company was \$6,786,060 and \$6,274,601. Also see Notes 14 and 18.

The amortization expense for the nine months ended September 30, 2010 and 2009 was \$186,203 and \$168,617, respectively.



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## NOTE 12 – LAND USE RIGHTS (CONTINUED)

Amortization expense for the next five years and thereafter is as follows:

|                     |               |
|---------------------|---------------|
| 2010 (three months) | \$ 62,067     |
| 2011                | 248,270       |
| 2012                | 248,270       |
| 2013                | 248,270       |
| 2014                | 248,270       |
| Thereafter          | 9,700,792     |
| Total               | \$ 10,755,939 |

## NOTE 13 – PLANT AND EQUIPMENT

Plant and equipment consist of the following:

|                                 | September 30,<br>2010<br>(Unaudited) | December 31, 2009 |
|---------------------------------|--------------------------------------|-------------------|
| At cost:                        |                                      |                   |
| Buildings                       | \$ 12,905,331                        | \$ 12,413,935     |
| Machinery and equipment         | 9,516,442                            | 9,252,390         |
| Office equipment                | 135,991                              | 114,380           |
| Motor vehicles                  | 176,134                              | 166,616           |
| Moulds                          | 11,371,213                           | 10,715,666        |
|                                 | 34,105,111                           | 32,662,987        |
| Less : Accumulated depreciation |                                      |                   |
| Buildings                       | \$ (1,310,857)                       | \$ (970,725)      |
| Machinery and equipment         | (6,429,983)                          | (5,601,424)       |
| Office equipment                | (101,824)                            | (95,295)          |
| Motor vehicles                  | (113,634)                            | (95,697)          |
| Moulds                          | (4,479,008)                          | (2,753,013)       |
|                                 | (12,435,306)                         | (9,516,154)       |
| Plant and equipment, net        | \$ 21,669,805                        | \$ 23,146,833     |

As of September 30, 2010 and December 31, 2009, the net book value of plant and equipment pledged as collateral for Company's bank loans was \$5,260,700 and \$4,308,435, respectively. Also see Note 14.

As of September 30, 2010, the net book value of plant and equipment pledged as collateral for bank loans borrowed by ZMEC, an unrelated party of the Company was \$4,615,419. Also see Notes 14 and 18.

Depreciation expense for nine months ended September 30, 2010 and 2009 was \$2,919,152 and \$2,361,364, respectively.



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## NOTE 14 – SHORT TERM BANK LOANS

Short-term loans are summarized as follows:

|                                                                                                                                                                                                                        | September<br>30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|----------------------|
| <b>Loans from ICBC-Exploration Zone Branch</b>                                                                                                                                                                         |                                         |                      |
| Monthly interest only payments at 6.43% per annum, due April 6, 2010, secured by the assets of the Company.                                                                                                            | \$ -                                    | \$ 731,294           |
| Monthly interest only payments at 5.31% per annum, due April 15, 2010. Collateralized by a time deposit.                                                                                                               | -                                       | 1,316,328            |
| Monthly interest only payments at 5.31% per annum, due June 3, 2010, secured by the assets of the Company.                                                                                                             | -                                       | 731,294              |
| Monthly interest only payments at 5.31% per annum, due August 10, 2010, secured by the assets of the Company (repaid before its due date).                                                                             | -                                       | 394,899              |
| Monthly interest only payments at 5.31% per annum, due August 11, 2010, secured by the assets of the Company (repaid before its due date).                                                                             | -                                       | 438,776              |
| Monthly interest only payments at 5.31% per annum, due October 11, 2010, secured by the assets of the Company (repaid before its due date).                                                                            | -                                       | 658,164              |
| Monthly interest only payments at 5.31% per annum, due October 13, 2010, secured by the assets of the Company (repaid before its due date).                                                                            | -                                       | 702,042              |
| Monthly interest only payments at 5.31% per annum, due November 12, 2010, secured by the assets of the Company (repaid before its due date).                                                                           | -                                       | 146,259              |
| Monthly interest only payments at 5.31% per annum, due December 3, 2010, secured by the assets of the Company (repaid before its due date).                                                                            | -                                       | 585,035              |
| <b>Loans from Huaxia Bank</b>                                                                                                                                                                                          |                                         |                      |
| Monthly interest only payments at 5.58% per annum, due September 21, 2010, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Yongkang Kangli Metal Manufacturing Co. and Kandi Investment Group Co. | -                                       | 3,948,985            |



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## NOTE 14 – SHORT TERM BANK LOANS (CONTINUED)

|                                                                                                                                                                                                                                                                    | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <b>Loans from Commercial Bank-Jiangnan Branch</b>                                                                                                                                                                                                                  |                                      |                      |
| Monthly interest only payments at 5.84% per annum, due January 5, 2010, guaranteed by Yongkang Kangli Metal Manufacturing Co. and pledged by Jingdezhen De'er Industrial Investment Co., Ltd.                                                                      | -                                    | 2,925,174            |
| Monthly interest only payments at 5.84% per annum, due May 5, 2010, secured by the assets of the Company, and guaranteed by Mr. Hu Xiaoming and Ms. Ling Yueping.                                                                                                  | -                                    | 1,462,587            |
| Monthly interest only payments at 5.10% per annum, due October 15, 2010, secured by the assets of the Company (repaid on its due date).                                                                                                                            | 1,492,961                            | -                    |
| Monthly interest only payments at 5.10% per annum, due December 10, 2010, secured by the assets of the Company, and guaranteed by Mr. Hu Xiaoming and Ms. Ling Yueping.                                                                                            | 746,481                              | -                    |
| Monthly interest only payments at 5.84% per annum, due January 5, 2011, guaranteed by Mr. Hu Xiaoming, Mr. Lu Qinjiang, Mr. Lu Qinbo, Ms. Ling Yueping and Yongkang Kangli Metal Manufacturing Co. and pledged by Jingdezhen De'er Industrial Investment Co., Ltd. | 2,985,921                            | -                    |
| <b>Loans from China Ever-bright Bank</b>                                                                                                                                                                                                                           |                                      |                      |
| Monthly interest only payments at 5.58% per annum, due February 22, 2010, pledged office building of Mr. Hu Xiaoming and Ms. Ling Yueping, guaranteed by Nanlong Group Co., Ltd., and Yongkang Kangli Metal Manufacturing Co.                                      | -                                    | 4,387,761            |
| Monthly interest only payments at 5.35% per annum, due October 13, 2010, secured by the assets of the Company, and guaranteed by Nanlong Group Co., Ltd., Zhejiang Mengdeli Electric Company Mr. Hu Xiaoming and Ms. Ling Yueping (repaid on its due date).        | 4,478,882                            | -                    |
| Monthly interest only payments at 4.86% per annum, due October 15, 2010, secured by the Company's account receivables (repaid on its due date).                                                                                                                    | 2,985,921                            | -                    |
| Monthly interest only payments at 5.84% per annum, due April.7, 2011, pledged office building of Mr. Hu Xiaoming and Ms. Ling Yueping, guaranteed by Nanlong Group Co., Ltd., and Zhejiang Mengdeli Electric Company.                                              | 4,478,882                            | -                    |



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## NOTE 14 - SHORT TERM BANK LOANS (CONTINUED)

|                                                                                                                                                                                                 | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| Loans from Shanghai Pudong Development Bank                                                                                                                                                     |                                      |                      |
| Monthly interest only payments at 4.78% per annum, due April 28, 2010, collateralized by a time deposit.                                                                                        | -                                    | 1,316,328            |
| Monthly interest only payments at 5.58% per annum, due December 8, 2010, pledged house of Hu Xiaoming and Ms. Ling Yueping, guaranteed by Nanlong Group Co., Ltd. and Mr. Hu Xiaoming.          | 2,985,921                            | 2,925,174            |
| Loans from China Ever-growing Bank                                                                                                                                                              |                                      |                      |
| Monthly interest only payments at 5.84% per annum, due October 27, 2010, guaranteed by Zhejiang Shuguang Industrial Co., Ltd., and Zhejiang Mengdeli Electric Company (repaid on its due date). | 2,985,921                            | 2,925,173            |
| Loans from China Communication Bank-Jinhua Branch                                                                                                                                               |                                      |                      |
| Monthly interest only payments at 5.58% per annum, due February 15, 2010, guaranteed by Zhejiang Shuguang Industrial Co., Ltd. and Mr. Hu Xiaoming.                                             | -                                    | 731,293              |
| Monthly interest only payments at 5.84% per annum, due February 4, 2011, guaranteed by Mr. Hu Xiaoming, Mr. Yan Guanwei and Zhejiang Shuguang industrial Co., Ltd.                              | 746,481                              | -                    |
| Total                                                                                                                                                                                           | \$ 23,887,371                        | \$ 26,326,566        |

Short term bank loans interest expense for the nine months ended September 30, 2010 and 2009 was \$1,128,437, and \$1,241,166, respectively.

As of September 30, 2010, the aggregated amount of short term loans that are guaranteed by various third parties is \$18,662,009. Also see Note 19.

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## NOTE 15 – NOTES PAYABLE

Notes payable are summarized as follows:

|                                                | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|------------------------------------------------|--------------------------------------|----------------------|
| <b>Bank acceptance notes:</b>                  |                                      |                      |
| Due March 8, 2010                              | \$ -                                 | \$ 1,462,587         |
| Due March 24, 2010                             | -                                    | 1,462,587            |
| Due April 14, 2010                             | -                                    | 1,316,328            |
| Due October 26, 2010 (repaid on its due date)  | 2,239,441                            |                      |
| Due November 5, 2010 (repaid on its due date)  | 746,480                              |                      |
| Due November 5, 2010 (repaid on its due date)  | 1,492,961                            |                      |
| Due November 12, 2010 (repaid on its due date) | 1,492,961                            |                      |
| Due January 13, 2011                           | 1,492,961                            |                      |
| Due March 2, 2011                              | 1,194,368                            |                      |
| Due March 13, 2011                             | 1,492,961                            |                      |
| Due March 16, 2011                             | 1,194,368                            | -                    |
| Subtotal                                       | \$ 11,346,501                        | \$ 4,241,502         |
| <b>Notes payable to unrelated companies:</b>   |                                      |                      |
| Due December 1, 2010                           | \$ -                                 | \$ 3,690,038         |
| Due December 31, 2010                          | 128,395                              | -                    |
| Due December 31, 2010                          | 2,630,871                            | -                    |
| Due January 20, 2012                           | 807,278                              | -                    |
| Subtotal                                       | 3,566,544                            | 3,690,038            |
| Total                                          | \$ 14,913,045                        | \$ 7,931,540         |

All the bank acceptance notes do not bear interest, but are subject to bank charges of 0.005% of the principal as commission on each loan transaction.

Restricted cash of \$9,853,541 is held as collateral for the following notes payable at September 30, 2010:

|                                                |               |
|------------------------------------------------|---------------|
| Due October 26, 2010 (repaid on its due date)  | 2,239,441     |
| Due November 5, 2010 (repaid on its due date)  | 746,480       |
| Due November 5, 2010 (repaid on its due date)  | 1,492,961     |
| Due November 12, 2010 (repaid on its due date) | 1,492,961     |
| Due January 13, 2011                           | 1,492,961     |
| Due March 2, 2011                              | 1,194,368     |
| Due March 13, 2011                             | 1,492,961     |
| Due March 16, 2011                             | 1,194,368     |
| Subtotal                                       | \$ 11,346,501 |



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NOTE 16 – TAX

(a) Corporation Income Tax (“CIT”)

On March 16, 2007, the National People’s Congress of China approved the Corporate Income Tax Law of the People’s Republic of China (the “new CIT law”), which went into effect on January 1, 2008. In accordance with the relevant tax laws and regulations of the PRC, the applicable corporate income tax rate is 25%.

Prior to January 1, 2008, the CIT rate applicable to the Company is 33%. Kandi’s first profitable tax year for income tax purposes as a foreign-invested company was 2007. As a foreign-invested company, the income tax rate of Kandi is entitled to a 50% tax holiday based on 25% for the years from 2009 through 2011. During the transition period, the above tax concession granted to the Company prior to the new CIT law will be grandfathered according to the interpretations of the new CIT law.

KSV is a subsidiary of the Company and its applicable corporate income tax rate is 25%.

Effective January 1, 2007, the Company adopted ASC 740, Income Taxes. The interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements.

Under ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of September 30, 2010, the Company does not have a liability for unrecognized tax benefits. The Company files income tax returns in the U.S. federal jurisdiction. The Company is subject to U.S. federal income tax examinations by tax authorities for years after 2005. During the periods open to examination, the Company has net operating loss carry forwards (“NOLs”) for U.S. federal and state tax purposes that have attributes from closed periods. Since these NOLs may be utilized in future periods, they remain subject to examination. The Company also files certain tax returns in China. As of September 30, 2010 the Company was not aware of any pending income tax examinations by China tax authorities. The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of September 30, 2010, the Company has no accrued interest or penalties related to uncertain tax positions. The Company has not recorded a provision for U.S. federal income tax for the nine months ended September 30, 2010 due to the net operating loss carry forward in the United States.

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## NOTE 16 – TAX (CONTINUED)

Income tax expense (benefit) for the nine months ended September 30, 2010 and 2009 is summarized as follows:

|                              | For the Nine Months Ended<br>September 30,<br>(Unaudited) |            |
|------------------------------|-----------------------------------------------------------|------------|
|                              | 2010                                                      | 2009       |
| <b>Current:</b>              |                                                           |            |
| Provision for CIT            | \$ 279,955                                                | \$ -       |
| <b>Deferred:</b>             |                                                           |            |
| Provision for CIT            | (10,617)                                                  | 146,642    |
| Income tax expense (benefit) | \$ 269,338                                                | \$ 146,642 |

The Company's income tax expense (benefit) differs from the "expected" tax expense for the nine months ended September 30, 2010 and 2009 (computed by applying the CIT rate of 25%, respectively to income before income taxes) as follows:

|                                       | For the Nine Months Ended<br>September 30,<br>(Unaudited) |            |
|---------------------------------------|-----------------------------------------------------------|------------|
|                                       | 2010                                                      | 2009       |
| Computed "expected" (benefit) expense | \$ (109,997)                                              | \$ 91,567  |
| Favorable tax rate                    | 236,834                                                   | 18,326     |
| Permanent differences                 | 58,159                                                    | 30,118     |
| Valuation allowance                   | 84,342                                                    | 6,631      |
| Income tax expense (benefit)          | \$ 269,338                                                | \$ 146,642 |

The tax effects of temporary differences that give rise to the Company's net deferred tax assets and liabilities as of September 30, 2010 and December 31, 2009 are summarized as follows:

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## NOTE 16 – TAX (CONTINUED)

|                                                  | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|--------------------------------------------------|--------------------------------------|----------------------|
| Current portion:                                 |                                      |                      |
| Deferred tax assets:                             |                                      |                      |
| Expense                                          | \$ (285,813)                         | \$ 23,028            |
| Subtotal                                         | (285,813)                            | 23,028               |
| Deferred tax liabilities:                        |                                      |                      |
| Sales cut-off                                    | 231,005                              | (85,572)             |
| Other                                            | -                                    | -                    |
| Subtotal                                         | 231,005                              | (85,572)             |
| Total deferred tax liabilities – current portion | (54,808)                             | (62,544)             |
| Non-current portion:                             |                                      |                      |
| Deferred tax assets:                             |                                      |                      |
| Depreciation                                     | 515,930                              | 504,258              |
| Loss carried forward                             | 160,399                              | 75,397               |
| Valuation allowance                              | (160,399)                            | (75,397)             |
| Subtotal                                         | 515,930                              | 504,258              |
| Deferred tax liabilities:                        |                                      |                      |
| Accumulated other comprehensive gain             | (296,579)                            | (296,511)            |
| Subtotal                                         | (296,579)                            | (296,511)            |
| Total deferred tax assets – non-current portion  | 219,351                              | 207,747              |
| Net deferred tax assets                          | \$ 164,543                           | \$ 145,203           |

## (b) Tax Holiday Effect

For the nine months ended September 30, 2010 and 2009 the PRC corporate income tax rate was 25%. Certain subsidiaries of the Company are entitled to tax exemptions (tax holidays) for the nine months ended September 30, 2010 and 2009.

The combined effects of the income tax expense exemptions and reductions available to the Company for the nine months ended September 30, 2010 and 2009 are as follows:

For the Nine Months Ended  
September 30  
(Unaudited)

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|                                          | 2010         | 2009        |
|------------------------------------------|--------------|-------------|
| Tax holiday credit                       | \$ (236,834) | \$ (18,326) |
| Basic net (loss) income per share effect | \$ (0.01)    | \$ (0.00)   |

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## NOTE 17 - STOCK OPTIONS, WARRANTS AND CONVERTIBLE NOTES

## (a) Stock Options

On February 11, 2009, the Compensation Committee of the Board of Directors of the Company approved the grant of stock options for 2,600,000 shares of common stock to ten of the Company's employees and directors. The stock options vest ratably over three years and expire in ten years from the grant date. The Company valued the stock options at \$2,062,964 and amortizes the stock compensation expense using the straight-line method over the service period from February 11, 2009 through February 11, 2012. The value of the options was estimated using the Black Scholes Model with an expected volatility of 164%, expected life of 10 years, risk-free interest rate of 2.76% and expected dividend yield of 0.00%.

On October 6, 2009, the Company executed an agreement ("Cooperation Agreement") with Wang Rui and Li Qiwen, third-party consultants, whereby Mr. Wang and Mr. Li are to provide business development services in China to the Company in exchange for options to purchase 350,000 shares of the Company's common stock at an exercise price of \$1.50 per share. Per the agreement, 250,000 of these options vested and became exercisable on March 6, 2010, and 100,000 vested and became exercisable on June 6, 2010. The options will expire after ten years. The options are issued under and subject to the terms of the Company's 2008 Omnibus Long-Term Incentive Plan. No required dates of service are specified on the consulting agreement. No repurchase features or cash settlement provisions are specified in the terms and conditions of the Notice of Grant of Stock Option.

The following is a summary of the stock option activities of the Company:

|                                      | Activity  | Weighted Average<br>Exercise Price |
|--------------------------------------|-----------|------------------------------------|
| Outstanding as of January 1, 2010    | 2,950,000 | \$ 0.88                            |
| Granted                              | -         | -                                  |
| Exercised                            | 1,116,696 | 0.96                               |
| Cancelled                            | -         | -                                  |
| Outstanding as of September 30, 2010 | 1,833,304 | \$ 0.84                            |

The following table summarizes information about stock options outstanding as of September 30, 2010:

| Options Outstanding |                   |                                             | Options Exercisable |                   |
|---------------------|-------------------|---------------------------------------------|---------------------|-------------------|
| Number of<br>shares | Exercise<br>Price | Remaining<br>Contractual life<br>(in years) | Number of<br>shares | Exercise<br>Price |
| 1,733,304           | \$ 0.80           | 8.5                                         | 1,733,304           | \$ 0.80           |
| 100,000             | 1.50              | 9                                           | 100,000             | 1.50              |

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NOTE 17 - STOCK OPTIONS, WARRANTS AND CONVERTIBLE NOTES (CONTINUED)

The fair value per share of the 2,600,000 options issued to the employees and directors is \$0.7934 per share. The fair value per share of 250,000 options issued to Wang Rui and Li Qiwen, which became exercisable on March 6, 2010, is \$4.55, while the fair value per share of 100,000 options issued to Wang Rui and Li Qiwen, which became exercisable on June 6, 2010, is \$3.44.

(b) Warrants and Convertible Notes

On September 21, 2009, the Company executed an agreement ("Consulting Agreement") with a third-party consultant, whereby the consultant is to provide management consulting and advisory services for a period of 12 months, beginning on September 22, 2009, and ending on September 22, 2010. As compensation for the services provided, the Company agreed to issue 200,000 warrants to purchase the Company's common stock, with 100,000 of these warrants issued at an exercise price of \$2.00 per share and 100,000 of these warrants issued at an exercise price of \$2.50 per share. All of the warrants have a five year contractual term and were granted on October 22, 2009. The warrants vested in full and became exercisable on January 21, 2010, upon the closing of an initial round of financing. The fair value per share of the 100,000 warrants issued under the Consulting Agreement with an exercise price of \$2.00 is \$4.56, and the fair value per share of the 100,000 warrants issued under the Consulting Agreement with an exercise price of \$2.50 is \$4.48.

Under a Securities Purchase Agreement, dated as of January 21, 2010, by and among the Company and certain investors thereto, the Company issued a total of \$10 million of senior secured convertible notes (the "Convertible Notes") and warrants exercisable for an aggregate of 800,000 shares of the Company's Common Stock (the "Investor Warrants"), for gross proceeds of \$10 million. The Convertible Notes, which accrue interest at a rate of 6% per annum, will mature in two years following the closing date of the offering and are initially convertible, at the option of the holders, into shares of Common Stock at \$6.25 per share. As of January 21, 2010, at the price of \$6.25 per share, the Convertible Notes were convertible into 1,600,000 shares of Common Stock. The Investor Warrants, which are exercisable for a period of three years following the closing date, are initially exercisable for shares of Common Stock at an exercise price of \$6.5625 per share as of January 21, 2010. Included in the associated issuance costs is the fair value of 80,000 warrants issued to a placement agent. These warrants have the same terms and conditions as the Investor Warrants issued to the investors.

Pursuant to the terms of the Convertible Notes and the Investor Warrants, on May 18, 2010, the conversion price of the Convertible Notes was adjusted to \$3.5924 per share and the exercise price of the Investor Warrants and warrants issued to the placement agent was adjusted to \$4.3907 per share. On August 19, 2010, the conversion price of the Convertible Notes was adjusted to \$3.1146 per share and the exercise price of the Investor Warrants and warrants issued to the placement agent was adjusted to \$3.8067 per share. As of September 30, 2010, the investors had converted \$5,890,214 of the principal amount and \$83,625 accrued interest of the Convertible Notes into an aggregate of 1,777,230 shares of Common Stock.

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As of September 30, 2010, the fair value of the Investor Warrants and the warrants issued to the placement agent is \$2.10 per share, and the fair value of conversion features is \$1.93 per share.

NOTE 18 – STOCK AWARDS

According to that certain Consulting Agreement dated as of September 21, 2009, the Company agreed to issue the consultant 100,000 shares of Company's Common Stock upon the achievement of certain conditions. Pursuant to the terms of the Consulting Agreement, the Company issued an aggregate of 100,000 restricted shares of Common Stock to the consultant and certain of its employees on April 14, 2010.

According to that certain consulting agreement dated as of March 1, 2010, between the Company and DGI Investor Relations, Inc., the Company agreed to compensate the consultant in payments of 2,000 shares of Company's Common Stock per quarter for the term of the agreement in exchange for the consultant providing investor relations services. Pursuant to the terms of the agreement, the Company issued 3,340 shares of Common Stock on April 27, 2010 for services rendered from January 2010 to May 31, and 2,000 shares of Common Stock on June 1, 2010 for services rendered from June 1, 2010 to August 31, 2010.

The fair value of stock awarded is determined by the closing price of the common stock on the date of stock awarded.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

As of September 30, 2010, the Company provided guarantee for the following third parties:

| Guarantee provided to                   | Amount        |
|-----------------------------------------|---------------|
| Yongkang Kangli Metal Manufacturing Co. | \$ 4,478,882  |
| Zhejiang Mengdeli Electric Company      | 2,538,033     |
| Zhejiang Shuguang industrial Co., Ltd.  | 2,985,921     |
| Zhejiang Yiran Auto Sales Company       | 1,940,849     |
| Wuyi Qilong Vehicle Co., Ltd.           | 1,343,665     |
| Zhejiang Taiping Trade Co., Ltd         | 3,433,810     |
| Total                                   | \$ 16,721,160 |

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NOTE 20 – SUBSEQUENT EVENTS

New Joint Venture

On October 5, 2010, the Company announced a joint venture with Tianneng Power International, Ltd., a battery manufacturer, and Jinhua Bada Group, a subsidiary of the State Grid Power Corporation, to create an electric vehicle battery rental and replacement services company, which will provide battery changing stations for the Company's electric vehicle users. The Company will own 30% of the new company; Tinneng will own 30%, and Bada Group will own 40%.

Convertible Notes Conversion

As stated in Note 17 above, as of September 30, 2010, investors in the convertible notes and investor warrants issued under a January 21, 2010 Securities Purchase Agreement had converted \$5,890,214 of the principal amount of \$10 million and \$83,625 accrued interest of the Convertible Notes into an aggregate of 1,777,230 shares of Common Stock.

As of November 10, 2010, the investors have converted an additional \$4,108,786 of the principal amount and \$75,882 accrued interest of the Convertible Notes into an aggregate of 1,343,565 shares of Common Stock. There were 24,305,831 shares of the Company's Common Stock outstanding as of November 10, 2010, reflecting the additional shares issued pursuant to the conversion of the Convertible Notes. As of the date of this Form 10-Q filing, all but \$1,000 of the Convertible Notes has been converted.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report contains forward-looking statements within the meaning of the federal securities laws that relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology, such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "intend," "potential" or "continue" or the negative of such terms or other comparable terminology, although not all forward-looking statements contain such terms.

In addition, these forward-looking statements include, but are not limited to, statements regarding implementing our business strategy; development and marketing of our products; our estimates of future revenue and profitability; our expectations regarding future expenses, including research and development, sales and marketing, manufacturing and general and administrative expenses; difficulty or inability to raise additional financing, if needed, on terms acceptable to us; our estimates regarding our capital requirements and our needs for additional financing; attracting and retaining customers and employees; sources of revenue and anticipated revenue; and competition in our market.

Forward-looking statements are only predictions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. All of our forward-looking information is subject to risks and uncertainties that could cause actual results to differ materially from the results expected. Although it is not possible to identify all factors, these risks and uncertainties include the risk factors and the timing of any of those risk factors described in the Company's Form 10-K for the year ended December 31, 2009 and those set forth from time to time in our filings with the Securities and Exchange Commission ("SEC"). These documents are available on the SEC's Electronic Data Gathering and Analysis Retrieval System at <http://www.sec.gov>.

Critical Accounting Policies and Estimates

Stock Option Cost

The Company's stock option cost is recorded in accordance with ASC 718 and ASC 505.

The fair value of stock options is estimated using the Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration date of the option. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock option expense recognized is based on awards expected to vest, and there were no estimated forfeitures. ASC standards requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The stock based compensation expense for the nine months ended September 30, 2010 is \$1,295,312, among which \$808,223 and \$487,089 was allocated to selling expense and distribution expenses, and general and administrative expenses, respectively.

#### Warrant Cost

The Company's warrant costs are recorded in liabilities and equities, respectively, in accordance with ASC 480, ASC 505 and ASC 815.

The fair value of warrants is estimated using the Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's stock adjusted by average volatility of companies in automotive industry. The expected life assumption is primarily based on the expiration date of the warrant. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The Company determined that the equity based warrants are not considered derivatives under ASC 815, while the warrants, which are freestanding derivatives and are classified as liabilities on the balance sheet, will be measured at fair value on each reporting date, with decreases in fair value recognized in earnings and increases in fair value recognized in expenses as interest expense.

As of September 30, 2010, the fair value per share of the warrants issued under the Consulting Agreement with the exercise price of \$2.00 is \$4.56, the fair value per share of the warrants issued under the Consulting Agreement with the exercise price of \$2.50 is \$4.48, and the fair value per share of the Investor Warrants and the warrants issued to placement agents of the Convertible Notes is \$2.10.

#### Fair Value of Conversion Features

In accordance with ASC 815, the conversion feature of the Convertible Notes is separated from the debt instrument and accounted for separately as a derivative instrument. On the date the Convertible Notes are issued, the conversion feature was recorded as a liability at its fair value, and future decreases in fair value recognized in earnings, while increases in fair value recognized in expenses as interest expense.

The Company used the Black-Scholes-Merton option-pricing model to obtain the fair value of the conversion feature. The Company's expected volatility assumption is based on the historical volatility of the Company's stock adjusted by average volatility of companies in automotive industry. The expected life assumption is primarily based on the expiration date of the warrant. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. As of September 30, 2010, the fair value of conversion features is \$1.93 per share.

#### Remeasurement at Fair Value of Financial Instruments & Non-Financial Assets

The Company measured the fair value of warrants and conversion features embedded in the Convertible Notes as of September 30, 2010 using the Black-Scholes-Merton model with the inputs effective at measurement date. For the nine months ended September 30, 2010, the fair value of Investor Warrants and warrants issued to placement agents has increased \$295,767, and the fair value of conversion features has increased \$507,117. For the nine months ended September 30, 2010, \$2,375,640 of the value of the conversion features has been exercised to convert \$5,890,214 principal of the Convertible Notes into the Company's Common Stock.

The Company's non-financial assets measured on a non-recurring basis include the Company's property, plant and equipment and finite-use intangible assets which are measured for recoverability when indicators for impairment are present. SFAS 157 requires companies to disclose assets and liabilities measured on a non-recurring basis in the period in which the remeasurement at fair value is performed. The Company has reviewed its long-lived assets as of September 30, 2010 and determined that there are no significant assets to be tested for recoverability under SFAS 144 and as such, no fair value measurements related to non-financial assets have been made during the nine months ended September 30, 2010.

#### Debt Discount

Since the objective of the services provided by the consultants was to help the Company to close a financing, the expense of warrants issued to consultants, which is measured at the date when the consultant's services are considered to be performed using the Black-Scholes model, is included in the debt discount, together with the expense of conversion features embedded in the Convertible Notes and expense of Investor Warrants and warrants issued to placement agents, which are measured as of the issuance date of Convertible Notes. The debt discount is amortized to interest expense over the life of the Convertible Notes payable using the effective interest method. As of September 30, 2010, the amount of debt discount is \$3,302,508.

#### Revenue Recognition

Revenues represent the invoiced value of goods sold, recognized upon the shipment of goods to customers. Revenues are recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectability is reasonably assured.

#### New Accounting Pronouncements

#### Recently Implemented Standards

ASC 105, Generally Accepted Accounting Principles ("ASC 105") (formerly Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162) reorganized by topic existing accounting and reporting guidance issued by the Financial Accounting Standards Board ("FASB") into a single source of authoritative generally accepted accounting principles ("GAAP") to be applied by nongovernmental entities. All guidance contained in the Accounting Standards Codification ("ASC") carries an equal level of authority. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Accordingly, all other accounting literature will be deemed "non-authoritative."

ASC 105 is effective on a prospective basis for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has implemented the guidance included in ASC 105 as of July 1, 2009. The implementation of this guidance changed the Company's references to GAAP authoritative guidance but did not impact the Company's financial position or results of operations.

ASC 855, Subsequent Events (“ASC 855”) (formerly Statement of Financial Accounting Standards No. 165, Subsequent Events) includes guidance that was issued by the FASB in May 2009, and is consistent with current auditing standards in defining a subsequent event. Additionally, the guidance provides for disclosure regarding the existence and timing of a company’s evaluation of its subsequent events. ASC 855 defines two types of subsequent events, “recognized” and “non-recognized.” Recognized subsequent events provide additional evidence about conditions that existed at the date of the balance sheet and are required to be reflected in the financial statements. Non-recognized subsequent events provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date and, therefore; are not required to be reflected in the financial statements. However, certain non-recognized subsequent events may require disclosure to prevent the financial statements from being misleading. This guidance was effective prospectively for interim or annual financial periods ending after June 15, 2009. The Company implemented the guidance included in ASC 855 as of July 1, 2009. The effect of implementing this guidance was not material to the Company’s financial position or results of operations.

#### Recent Accounting Pronouncements

In August 2009, the FASB issued ASC Update No. 2009-05, Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value (“ASC Update No. 2009-05”). This update amends ASC 820, Fair Value Measurements and Disclosures and provides further guidance on measuring the fair value of a liability. The guidance establishes the types of valuation techniques to be used to value a liability when a quoted market price in an active market for the identical liability is not available, such as the use of an identical or similar liability when traded as an asset. The guidance also further clarifies that a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are both Level 1 fair value measurements. If adjustments are required to be applied to the quoted price, it results in a level 2 or 3 fair value measurement. The guidance provided in the update is effective for the first reporting period (including interim periods) beginning after issuance. The Company has implemented ASC Update No. 2009-05 as of September 30, 2010.

In September 2009, the FASB issued ASC Update No. 2009-12, Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) (“ASC Update No. 2009-12”). This update sets forth guidance on using the net asset value per share provided by an investee to estimate the fair value of an alternative investment. Specifically, the update permits a reporting entity to measure the fair value of this type of investment on the basis of the net asset value per share of the investment (or its equivalent) if all or substantially all of the underlying investments used in the calculation of the net asset value is consistent with ASC 820. The update also requires additional disclosures by each major category of investment, including, but not limited to, fair value of underlying investments in the major category, significant investment strategies, redemption restrictions, and unfunded commitments related to investments in the major category. The amendments in this update are effective for interim and annual periods ending after December 15, 2009 with early application permitted. The Company does not expect that the implementation of ASC Update No. 2009-12 will have a material effect on its financial position or results of operations.

ASC 810-10-30 & 10-65 codified Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) (“Statement No. 167”). Statement No. 167 amends FASB Interpretation No. 46R, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (“FIN 46R”) to require an analysis to determine whether a company has a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has (a) the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The statement requires an ongoing assessment of whether a company is the primary beneficiary of a variable interest entity when the holders of the entity, as a group, lose power, through voting or similar rights, to direct the actions that most significantly affect the entity’s economic performance. This statement also enhances disclosures about a company’s involvement in variable interest entities. The Company does not expect the adoption of ASC 810-10-30 & 10-65 to have a material impact on its financial position or results of operations.

ASC 860-10-65 codified Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (“Statement No. 166”). Statement No. 166 revises FASB Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Extinguishment of Liabilities a replacement of FASB Statement 125 (“Statement No. 140”) and requires additional disclosures about transfers of financial assets, including securitization transactions, and any continuing exposure to the risks related to transferred financial assets. It also eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and enhances disclosure requirements. The Company does not expect the adoption of ASC 860-10-65 will have a material impact on its financial position or results of operations.

## Results of Operations

## Comparison of Nine Months Ended September 30, 2010 and 2009

The following table sets forth the amounts and percentage relationship to revenue of certain items in our condensed consolidated statements of income and comprehensive income

|                                                         | For Nine<br>Months Ended<br>September 30,<br>2010 | % Of<br>Revenue | For Nine<br>Months Ended<br>September 30,<br>2009 | % Of<br>Revenue | Change In<br>Amount | Change<br>In % |
|---------------------------------------------------------|---------------------------------------------------|-----------------|---------------------------------------------------|-----------------|---------------------|----------------|
| REVENUES, NET                                           | \$ 28,637,863                                     | 100.0%          | \$ 19,114,049                                     | 100.0%          | \$ 9,523,814        | 49.8%          |
| COST OF GOODS SOLD                                      | (22,098,905)                                      | (77.2)%         | (14,329,404)                                      | (75.0)%         | (7,769,501)         | 54.2%          |
| GROSS PROFIT                                            | 6,538,958                                         | 22.8%           | 4,784,645                                         | 25.0%           | 1,754,313           | 36.7%          |
| Research and development                                | 1,203,270                                         | 4.2%            | 1,767,081                                         | 9.2%            | (563,811)           | (31.9)%        |
| Selling and distribution<br>expenses                    | 1,000,187                                         | 3.5%            | 263,304                                           | 1.4%            | 736,883             | 279.9%         |
| General and administrative<br>expenses                  | 2,315,088                                         | 8.1%            | 1,966,422                                         | 10.3%           | 348,666             | 17.7%          |
| INCOME (LOSS) FROM<br>OPERATIONS                        | 2,020,413                                         | 7.1%            | 787,838                                           | 4.1%            | 1,232,575           | 156.5%         |
| Interest income (expense),<br>net                       | (2,015,516)                                       | (7.0)%          | (860,872)                                         | (4.5)%          | (1,154,644)         | 134.1%         |
| Change of fair value of<br>financial instruments        | (802,884)                                         | (2.8)%          | -                                                 | -               | (802,884)           | 100%           |
| Government grants                                       | 266,911                                           | 0.9%            | 127,317                                           | 0.7%            | 139,594             | 109.6%         |
| Other income, net                                       | 91,088                                            | 0.3%            | 311,984                                           | 1.6%            | (220,896)           | (70.8)%        |
| (LOSS) INCOME FROM<br>OPERATIONS BEFORE<br>INCOME TAXES | (439,988)                                         | (1.5)%          | 366,267                                           | 1.9%            | (806,255)           | (220.1)%       |
| INCOME TAX BENEFIT<br>(EXPENSE)                         | (269,338)                                         | (0.9)%          | (146,642)                                         | (0.8)%          | (122,696)           | 83.7%          |
| (LOSS) INCOME FROM<br>CONTINUING<br>OPERATIONS          | (709,326)                                         | (2.5)%          | 219,625                                           | 1.1%            | (928,951)           | (423.0)%       |
| NET (LOSS) INCOME                                       | (709,326)                                         | (2.5)%          | 219,625                                           | 1.1%            | (928,951)           | (423.0)%       |

## (a) Revenue

For the nine months ended September 30, 2010, our revenue increased by 49.8%, from \$19,114,049 to \$28,637,863 year over year. This was primarily due to the continued strengthening of the Company's traditional recreational vehicle market, led by a 167% year over year increase in go kart sales and 86% year over year increase in sales of the CoCo super mini auto, primarily in the U.S. The Company noted that sales of go karts historically were stronger ahead of the Christmas season and it has also focused on expanding sales to new locations. While sales of other recreational products were weaker than anticipated, the Company anticipates gradual strengthening in the months ahead. The Company also is continuing to focus on developing what it sees as a potentially large new market for certain of its recreational vehicles in its domestic market, as part of a continuing goal to shift 50% of product sales to China over time.

With respect to EV sales, the Company believes the strengthening of the Yuan versus the dollar has had a negative effect in recent months on U.S. sales of its "CoCo". The Company has shifted the focus of its EV sales to China, where we are pursuing our new EV business model, consisting of a network of "express charge" battery stations, among other things. While the Company anticipates a modest recovery for "CoCo" EV sales in the U.S., it is focusing on beginning retail sales of EVs in Jinhua before year end, after the anticipated completion of the "battery farm" and several "express charge" stations. The Company anticipates the development of additional EV model cities and expanded sales of EVs.

The following table lists the number of vehicles sold and sales revenue, categorized by vehicle type, within the nine months ended September 30, 2010 and 2009:

|                                 | Nine Months Ended September 30 |              |       |              |
|---------------------------------|--------------------------------|--------------|-------|--------------|
|                                 | 2010                           |              | 2009  |              |
|                                 | Unit                           | Sales        | Unit  | Sales        |
| ATV                             | 2,756                          | \$ 1,985,008 | 2,598 | \$ 1,623,635 |
| CoCo                            | 1,592                          | 6,635,008    | 896   | 3,563,550    |
| GoKart                          | 14,943                         | 15,064,736   | 6,098 | 5,650,243    |
| Utility vehicles ("UTVs")       | 1,397                          | 2,970,300    | 2,582 | 6,468,654    |
| Three-wheeled motorcycle ("TT") | 862                            | 1,982,811    | 896   | 1,803,603    |
| Pick - up                       | -                              | -            | 1     | 4,364        |

The following table shows the breakdown of Kandi's revenues from its customers by geographical markets based on the location of the customer during the nine months ended September 30, 2010 and 2009:

|               | Nine Months Ended September 30 |            |               |            |
|---------------|--------------------------------|------------|---------------|------------|
|               | 2010                           |            | 2009          |            |
|               | Sales                          | Percentage | Sales         | Percentage |
| North America | \$ 3,391,508                   | 12%        | \$ 2,321,372  | 12%        |
| China         | 24,908,400                     | 87%        | 16,518,443    | 86%        |
| Europe        | 337,955                        | 1%         | 274,234       | 2%         |
| Total         | \$ 28,637,863                  | 100%       | \$ 19,114,049 | 100%       |

For the nine months ended September 30, 2010, over 95% of sales to China are sales to Chinese export agents, who resell the company's products to North America, Europe, and other regions.

(b) Cost of goods sold

Cost of goods sold during the nine months ended September 30, 2010 was \$22,098,905, representing a 54.2% increase of \$7,769,501 from the nine months ended September 30, 2009, which corresponded with the increase in sales. Cost of goods sold was 77.2% of the total revenue for the period, as compared to 75% of the comparable period, reflecting the increased price of raw manufacturing materials whose costs were comparatively higher than those of previous year.

(c) Gross profit

Gross profit for the nine months ended September 30, 2010 increased 36.7%, from \$4,784,645 to \$6,538,958 compared to the same period in 2009, as a result of the increase in revenue, although higher material costs caused the increase in gross profit to lag behind the increase in revenue.

(d) Selling and distribution expenses

Selling and distribution expenses were \$1,000,187 for the nine months ended September 30, 2010, as compared to \$263,304 from the same period in 2009, representing a 280% increase. The significant increase in these expenses was the result of the expense related to the options issued to consultants for their sales and marketing services assisting the Company in expansion within the Chinese market. Excluding the \$808,223 option related expense, the net selling and distribution expenses for the nine months ended September 30, 2010 was \$191,964, a 27.1% decrease from \$263,304 for the same period of 2009, primarily due to the \$30,175 decrease in insurance expense and \$86,432 decrease in advertising and announcement fee, although this decrease was partially offset by an increase in shipping costs of \$43,528, compared to the same period of 2009, due to the increased sales.

(e) General and administrative expenses

General and administrative expenses were \$2,315,088 for the nine months ended September 30, 2010, as compared to \$1,966,422 for the same period in 2009, representing a 17.7% increase. For the nine months ended September 30, 2010, the general and administrative expenses included \$527,139 expenses for shares of common stock awards to consultants for financing and investor relations services. In addition to the stock award expense, the general and administrative expenses also included \$487,089 in stock-based compensation costs for the options issued to the Company's executives and managerial level employees, while for the same period of last year, this stock based compensation cost was \$840,468. Excluding the effect of stock award cost and option cost, the net general and administrative expenses for the nine months ended September 30, 2010 was \$1,300,860, increased 15.5% from \$1,125,954 for the same period of 2009, primarily due to the increase of expenses incurred by the Company's increased activities in investor relations and capital markets compared to the same period of 2009..

(f) Research and development

Research and development expenses were \$1,203,270 for the nine months ended September 30, 2010, as compared to \$1,767,081 from the same period in 2009, representing a 32% decrease. The decrease was due to a significant curtailment of research and development expenses associated with the electric-powered super-mini car, CoCo.

(g) Government grants

Government grants totaled \$266,911 for the nine months ended September 30, 2010, representing a 110% increase over the same period in 2009, primarily due to the PRC government's grant of subsidies for Company's continuous efforts on research and patent development. The government grants consist of \$230,033 in subsidies for patent applications and other intellectual property expenses, and \$36,878 in subsidies for supporting companies that have competitive advantages.

(h) Other income, Net

Net other income was \$91,088 for the nine months ended September 30, 2010, a decrease of 70.8% from \$311,984 for the same period of 2009. This is primarily due to a damage award amount of \$216,861 that the Company received in the second quarter of 2009 from a lawsuit against Zhejiang Yuegong Steel Structure Co. and Zhejiang Jinhua No.1 Construction Co., Ltd. for their delay in the construction in the Jinhua Industrial District.

(i) Net interest income (expense)

Net interest expense was \$2,015,516 for the nine months ended September 30, 2010, as compared to \$860,872 interest expense for the same period last year, representing a significant change of 134%. For the nine months ended September 30, 2010, the interest expense for the Convertible Notes was \$343,267, and the interest expense incurred by the amortization of debt discount was \$799,128. However, excluding the effects of interest expense related to Convertible Notes, the interest expense for this reporting period was \$873,121, almost equal to \$860,872 for the same period of 2009. As of the date of this Form 10-Q filing, all but \$1,000 of the Convertible Notes have already been converted.

(j) Change of fair value of financial instruments

For the nine months ended September 30, 2010, the cost caused by the changes in fair value of Warrants issued to Convertible Notes investors and placement agents, and the changes in fair value of conversion features embedded in Convertible Notes, was \$802,884.

(k) Net income (loss)

The operating performance of the Company for the nine months ended September 30, 2010 reflected a net loss of \$709,326, down from a net income of \$219,625 for the same period of last year, primarily due to the significant non-cash expense caused by the changes of fair value of Warrants issued to Convertible Notes investors and placement agents, and the changes of fair value of conversion features embedded in Convertible Notes.

Excluding the effects of option related expenses, the Convertible Note's interest expense, the effect caused by amortization of discount on Convertible Notes, and the change of the fair value of financial derivatives, for the nine months ended September 30, 2010, the Company's net income was \$3,058,404, up 188.5% as compared with net income of \$1,060,093 for the same period of 2009 excluding the same effects. As of the date of this Form 10-Q filing, all but \$1,000 of the Convertible Notes have already been converted.

## Comparison of Three Months Ended September 30, 2010 and 2009

The following table sets forth the amounts and percentage relationship to revenue of certain items in our condensed consolidated statements of income and comprehensive income

|                                                         | For Three<br>Months Ended<br>September 30,<br>2010 | % Of<br>Revenue | For Three<br>Months Ended<br>September 30,<br>2009 | % Of<br>Revenue | Change In<br>Amount | Change<br>In % |
|---------------------------------------------------------|----------------------------------------------------|-----------------|----------------------------------------------------|-----------------|---------------------|----------------|
| REVENUES, NET                                           | \$ 10,478,224                                      | 100.0%          | \$ 9,626,593                                       | 100.0%          | \$ 851,631          | 8.8%           |
| COST OF GOODS SOLD                                      | (8,140,771)                                        | (77.7)%         | (7,266,052)                                        | (75.5)%         | (874,719)           | 12.0%          |
| GROSS PROFIT                                            | 2,337,453                                          | 22.3%           | 2,360,541                                          | 24.5%           | (23,088)            | (1.0)%         |
| Research and development                                | 459,935                                            | 4.4%            | 660,108                                            | 6.9%            | (200,173)           | (30.3)%        |
| Selling and distribution<br>expenses                    | 58,121                                             | 0.6%            | 79,310                                             | 0.8%            | (21,189)            | (26.7)%        |
| General and administrative<br>expenses                  | 516,929                                            | 4.9%            | 510,212                                            | 5.3%            | 6,717               | 1.3%           |
| INCOME FROM<br>OPERATIONS                               | 1,302,468                                          | 12.4%           | 1,110,911                                          | 11.5%           | 191,557             | 17.2%          |
| Interest (expense) income,<br>net                       | (572,032)                                          | (5.5)%          | (442,315)                                          | (4.6)%          | (129,717)           | (29.3)%        |
| Change of fair value of<br>financial instruments        | (2,578,693)                                        | (24.6)%         | -                                                  | -               | (2,578,693)         | 100%           |
| Government grants                                       | 191,934                                            | 1.8%            | 3,312                                              | 0%              | 188,622             | 5,696.1%       |
| Other income, net                                       | 33,249                                             | 0.3%            | 9,800                                              | 0.1%            | 23,449              | 239.3%         |
| (LOSS) INCOME FROM<br>OPERATIONS BEFORE<br>INCOME TAXES | (1,623,074)                                        | (25.6)%         | 681,708                                            | 7.0%            | (2,304,782)         | (338.1)%       |
| INCOME TAX<br>(EXPENSE) BENEFIT                         | (94,282)                                           | (0.9)%          | (105,558)                                          | (1.1)%          | 11,276              | (10.7)%        |
| (LOSS) INCOME FROM<br>CONTINUING<br>OPERATIONS          | (1,717,356)                                        | (16.4)%         | 576,150                                            | 6.0%            | (2,293,506)         | (398.1)%       |
| NET (LOSS) INCOME                                       | (1,717,356)                                        | (16.4)%         | 576,150                                            | 6.0%            | (2,293,506)         | (398.1)%       |

## (a) Revenue

For the three months ended September 30, 2010, our revenue increased by 8.8%, to \$10,478,224 from \$9,626,593 as compared to the three months ended September 30, 2009. This was primarily due to the continuing strengthening of the Company's traditional recreational vehicle market, led by a 150% year over year increase in go kart sales. The Company noted that sales of this product historically were stronger ahead of the Christmas season and it has also focused on expanding sales to new locations. While sales of other recreational products were weaker than anticipated, the Company anticipates a gradual strengthening in the months ahead. The Company also is continuing to focus on developing what it sees as a potentially large new market for certain of its recreational vehicles in its domestic market, as part of a continuing goal to shift 50% of product sales to China over time.

The following table lists the number of vehicles sold and sales revenues, categorized by vehicle type, within the three months ended September 30, 2010 and 2009:

|                                 | Three Months Ended September 30 |            | 2009  |            |
|---------------------------------|---------------------------------|------------|-------|------------|
|                                 | 2010                            |            | 2009  |            |
|                                 | Unit                            | Sales      | Unit  | Sales      |
| ATV                             | 572                             | \$ 387,587 | 824   | \$ 570,002 |
| CoCo                            | 215                             | 812,996    | 422   | 1,859,525  |
| GoKart                          | 8,556                           | 8,182,472  | 3,535 | 3,270,019  |
| Utility vehicles ("UTVs")       | 345                             | 665,908    | 1,124 | 2,796,892  |
| Three-wheeled motorcycle ("TT") | 184                             | 429,261    | 560   | 1,125,791  |
| Pick-up                         | -                               | -          | 1     | 4,364      |

The following table shows the breakdown of Kandi's revenues from its customers by geographical markets based on the location of the customer during the three months ended September 30, 2010 and 2009:

|               | Three Months Ended September 30 |            | 2009         |            |
|---------------|---------------------------------|------------|--------------|------------|
|               | 2010                            |            | 2009         |            |
|               | Sales                           | Percentage | Sales        | Percentage |
| North America | \$ 1,027,131                    | 10%        | \$ 1,058,865 | 11%        |
| China         | 9,338,775                       | 89%        | 8,446,800    | 88%        |
| Europe        | 112,318                         | 1%         | 120,928      | 1%         |
| Total         | \$ 10,478,224                   | 100%       | \$ 9,626,593 | 100%       |

For the three months ended September 30, 2010, about 95% of sales to China are sales to Chinese export agents, who resell the company's products to North America, Europe, and other regions.

## (b) Cost of goods sold

Cost of goods sold during the three months ended September 30, 2010 was \$8,140,771, representing a 12% increase of \$874,718 from the three months ended September 30, 2009, which corresponds with the increase in sales. Cost of goods sold was 77.7% of the total revenue for the period, as compared to 75.5% of the comparable period last year, which is primarily due to the increased price of raw manufacturing materials.

(c) Gross profit

Gross profit for the three months ended September 30, 2010 decreased 1%, from \$2,360,541 to \$2,337,453 from the same period in 2009, which is mainly due to the increase in revenue was not enough to compensate for the increase in the costs of raw material.

(d) Selling and distribution expenses

Selling and distribution expenses were \$58,121 for the three months ended September 30, 2010, as compared to \$79,310 from the same period in 2009, representing a 26.7% decrease, primarily because the advertising fee and announcement fee for the three months ended September 30, 2010 were \$29,352 lower than the amount incurred for the same period of last year.

(e) General and administrative expenses

General and administrative expenses were \$516,929 for the three months ended September 30, 2010, as compared to \$510,212 for the same period in 2009, representing a 1.3% increase. For the three months ended September 30, 2010, the general and administrative expenses included \$143,262 in stock-based compensation costs for the options issued to the Company's executives and managerial level employees, while for the same period of last year, this stock based compensation cost was \$315,176. Without the effect of stock award cost and option cost, the net general and administrative expenses for the three months ended September 30, 2010 would be \$373,667, an increase of 91.6% from \$195,036 for the same period of 2009. This increase was primarily the result of the increase of expenses incurred by the Company's increased activities in investor relations and capital markets, as well as the higher depreciation expense compared to the same period of 2009.

(f) Government grants

Government grants totaled \$191,934 for the three months ended September 30, 2010, significantly increased from \$3,312 for the same period in 2009. The government grants for the three months ended September 30, 2010 consist of \$154,860 in subsidies for patent applications and other intellectual property expenses, and \$37,074 in subsidies for companies that have competitive advantages.

(g) Other income, Net

Net other income was \$33,249 for the three months ended September 30, 2010, an increase of 239% from \$9,800 for the same period of 2009, mainly due to the income from leasing the Company's facilities .

(h) Net interest expense

Net interest expense was \$572,032 for the three months ended September 30, 2010, compared to \$442,315 for the same period last year. For the three months ended September 30, 2010, the interest expense on the Convertible Notes was \$89,842, and the interest expense incurred by the amortization of debt discount was \$307,029. Excluding the effects of interest expense related to Convertible Notes, the net interest expense for the three months ended September 30, 2010 would be \$175,161, a decrease of 60% from \$442,315 for the same period of 2009. This was primarily due to the increase in interest income earned from the note receivables issued to third parties, which increased \$225,341 compared to the same period of 2009.

(i) Change of fair value of financial instruments

For the three months ended September 30, 2010, the cost caused by the changes in fair value of Investor Warrants and warrants issued to placement agents, and the changes in fair value of conversion features embedded in Convertible Notes, was \$2,578,693.

(j) Net (loss) income

The operating performance of the Company for the three months ended September 30, 2010 reflected a net loss of \$1,717,356, which is significantly changed from a net income of \$576,150 for the same period of last year. This is primarily due to the significant increase in fair value of financial instruments, which include the changes of fair value of Investor Warrants and warrants issued to placement agents, and the changes of fair value of conversion features embedded in Convertible Notes.

Excluding the effects of option related expenses, Convertible Notes' interest expense, the effects caused by the amortization of discount on Convertible Notes, and the change of the fair value of financial derivative, for the three months ended September 30, 2010, the Company recorded a net income of \$1,401,470, up 57.2% from net income of \$891,326 for the same period of 2009 excluding the same effects.

As of the date of this Form 10-Q filing, all but \$1,000 of the Convertible Notes have already been converted.

## Financial Condition

### Working Capital

The Company had a working capital surplus of \$3,044,974 at September 30, 2010, an improvement from a working capital deficit of \$13,859,809 as of September 30, 2009, which was principally due to the Company's issuance of \$10,000,000 long-term Convertible Notes in January 2010 and using part of the proceeds in the Company's working capital. In addition, for the nine months ended September 30, 2010, the Company also recorded a net cash inflow of \$7,395,249 from the operating activities, which also increased the Company's working capital.

As of September 30, 2010, the Company had credit lines from commercial banks for \$37,622,609, of which \$23,887,371 was used at September 30, 2010. The Company believes that its cash flows generated internally may not be sufficient to support growth of future operations and repay short term bank loans for the next twelve months if needed. Therefore, from time to time, the Company may require extra funding through short term borrowing from PRC banks or other financing activities if needed in the near future.

The Company has historically financed itself through short-term commercial bank loans from PRC banks. The term of these loans are typically for one year, and upon the payment of all outstanding principal and interest in a respective loan, the banks have typically rolled over the loans for additional one-year terms, with adjustments made to the interest rate to reflect prevailing market rates. The Company believes this situation has not changed and the short-term bank loan will be available on normal trade terms if needed.

## Capital Requirements and Capital Provided

Capital requirements and capital provided for the nine months ended September 30, 2010 is as follows:

|                                      | Nine months Ended<br>September 30, 2010<br>(In thousands) |
|--------------------------------------|-----------------------------------------------------------|
| Capital requirements                 |                                                           |
| Purchase of plant and equipment      | \$ 751                                                    |
| Purchase of construction in progress | -                                                         |
| Issuance of notes receivable         | 13,624                                                    |
| Repayments of short-term bank loans  | 26,554                                                    |
| Repayments of notes payable          | 7,956                                                     |
| Increase in restricted cash          | 3,964                                                     |
| Increase in cash                     | 3,194                                                     |
| Other financing activities           | 932                                                       |
| Total capital requirements           | \$ 56,975                                                 |
| Capital provided                     |                                                           |
| Internal cash provided by operation  | 7,395                                                     |
| Proceeds from short-term bank loan   | 23,620                                                    |
| Proceeds from notes payable          | 23,861                                                    |
| Repayments of notes receivable       | 2,275                                                     |
| Other financing activities           | -                                                         |
| Total capital provided               | \$ 57,151                                                 |

For further information, see the Statement of Cash Flows.

The difference between capital provided and capital requirement is the effect of exchange rate changes over the past nine months

## Cash Flow

Net cash flow provided by operating activities was \$7,395,249 for the nine months ended September 30, 2010, as compared to net cash flow used in operating activities of (\$5,237,399) in the same period in 2009. The increase of net cash flow provided by operating activities was mainly due to (i) the non-cash cost related to option, warrant and other financial derivative was \$4,633,871 for the nine months ended September 30, 2010, much higher than \$840,468 for the same period of last year; (ii) a net cash inflow of \$5,230,579 for the nine months ended September 30, 2010 caused by the change of accounts payable, improved from a net cash inflow of \$1,225,909 for the same period of last year, and (iii) a decrease in the cash outflow for inventory from (\$11,232,447) to (\$5,403,855).

Net cash flow used in investing activities was (\$12,099,838) for the nine months ended September 30, 2010 as compared to net cash flow provided by investing activities of \$5,705,522 for the same reporting period in 2009. For the nine months ended September 30, 2010, the Company issued \$13,623,804 in notes receivable, and collected \$2,274,519 repayment of notes receivable, which caused a net cash outflow (\$11,349,285) in notes receivable. While for the same period of last year, the Company recorded a net cash inflow \$9,318,754 in note receivable, primarily due to the \$28,545,269 repayment of notes receivable.

Net cash flow provided by financing activities was \$8,074,348 for the nine months ended September 30, 2010, increased by \$7,803,530 as compared to net cash flow provided by financing activities of \$270,818 for the nine months ended September 30, 2009. Increase in cash flow provided by financing activities in this quarter was primarily

due to net cash inflow from notes payable of \$15,905,217.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

The Company maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by the Company in this Form 10-Q, and in other reports required to be filed under the Securities Exchange Act of 1934 (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the rules and forms for such filings. Management of the Company, under the direction of the Company's Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15a(e) and 15d-15(e) under the Exchange Act) as of September 30, 2010. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with other key management of the Company, have determined that the disclosure controls and procedures were effective as of such date.

In connection with the evaluation described above, we identified no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

None.

### Item 1A. Risk Factors.

As of the date of this filing, there have been no material changes from the risk factors previously disclosed in our “Risk Factors” in the Form 10-K for the period ended December 31, 2009. An investment in our common stock involves various risks. When considering an investment in our company, you should consider carefully all of the risk factors described in our most recent Form 10-K. These risks and uncertainties are not the only ones facing us and there may be additional matters that we are unaware of or that we currently consider immaterial. All of these could adversely affect our business, financial condition, results of operations and cash flows and, thus, the value of an investment in our company.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Removed and Reserved.

### Item 5. Other Information.

On September 28, 2010, the Company’s wholly owned subsidiary, Zhejiang Kandi Vehicles Co., Ltd., entered into a Joint Venture Agreement with Jinhua Bada Group and Tianneng Power International Co., Ltd. The agreement was disclosed in a Current Report on Form 8-K, filed with the Securities Exchange Commission on October 12, 2010. A copy of the agreement is attached to this Quarterly Report on Form 10-Q as Exhibit 10.1.

Item 6. Exhibits

| Exhibit Number | Description                                                                                                                                                      |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1           | Joint Venture Agreement, dated September 28, 2010, by and among Jinhua Bada Group, Zhejiang Kandi Vehicles Co., Ltd., and Tianneng Power International Co., Ltd. |
| 31.1           | Certification pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934                                                                     |
| 31.2           | Certification pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934                                                                     |
| 32.1           | Certification of CEO and CFO pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002                                        |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

|                         |                                                                                                                                           |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| Date: November 15, 2010 | Kandi Technologies, Corp.<br>By: /s/ Hu Xiaoming<br>Hu Xiaoming<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|

|                         |                                                                                                                 |
|-------------------------|-----------------------------------------------------------------------------------------------------------------|
| Date: November 15, 2010 | By: /s/ Zhu Xiaoying<br>Zhu Xiaoying<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) |
|-------------------------|-----------------------------------------------------------------------------------------------------------------|